

Message Text

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11

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 CEA-01 STR-04 SS-15

NSC-05 /102 W

----- 078454

P R 020730Z DEC 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 3933

TREASURY DEPT WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 TOKYO 17727

DEPT PASS FEDERAL RESERVE, CEA, LABOR

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS NOV 24 - DEC 1

1. SUMMARY: GOJ SIGNALS IT IS PREPARING FOR MODEST SUPPLEMENTARY BUDGET FOR FY 1976 AIMED AT INCREASING PUBLIC WORKS EXPENDITURES, AS OCT INDUSTRIAL PRODUCTION FIGURES CONFIRM STAGNATION OF ECONOMY. NEW CONSTRUCTION ORDERS SHOW A SHARP FALL IN GOVERNMENT ORDERS IN OCT, ALTHOUGH PRIVATE CONSTRUCTION ORDERS CONTINUED TO ADVANCE. CONTINUED STRAINS IN ECONOMY EVIDENCED BY HIGH LEVELS OF BANKRUPTCIES, ALTHOUGH CORPORATE REPORTS CONTINUE TO SHOW GOOD RECOVERY OF PROFITS FOR MOST FIRMS. TOKYO CPI INCREASE IN NOV RELATIVELY MODERATE IN LIGHT OF RISE IN NATIONAL RIALWAYS FARES. CALL MONEY RATES ARE UNCLASSIFIED

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RAISED 0.25 PERCENT AT END OF NOV, REFLECTING SEASONAL

FACTORS, AND BOND YIELDS ALSO ROSE SLIGHTLY DURING MONTH. YEN WEAKENED IN THE FOREIGN EXCHANGE MARKET FOLLOWING -- BUT ACCORDING TO MARKET SOURCES, NOT IN REACTION TO -- AUSTRALIAN AND NEW ZEALAND EXCHANGE RATE ACTIONS. END SUMMARY

2. ON THE CAMPAIGN TRAIL THIS WEEK, FIN MIN OHIRA IS REPORTED AS SAYING SUPPLEMENTARY BUDGET WILL BE INTRODUCED IN CURRENT FISCAL YEAR(ENDING MAR 31, 1977). REVERSING HIS EARLIER POSITION ON THE NEED FOR A 1976 SUPPLEMENTAL, OHIRA INDICATED CABINET MINISTERS WILL GET TOGETHER SOON AFTER THE LOWER HOUSE ELECTION ON DEC 5 TO WORK OUT SUCH ACTION. ADDITIONAL SPENDING, WHICH GOVT SOURCES ARE QUOTED AS PUTTING AT SEVERAL HUNDRED BILLION YEN, IS EXPECTED TO BE CONCENTRATED ON PUBLIC WORKS PROJECTS.

3. THE CURRENT PAUSE IN THE ECONOMIC RECOVERY WAS CONFIRMED BY THE OCT INDUSTRIAL PRODUCTION AND PRODUCERS' SHIPMENTS FIGURES ANNOUNCED THIS WEEK, WHICH SHOWED A DECLINE FOR THIRD STRAIGHT MONTH. MITI INDEX OF MINING AND MANUFACTURING PRODUCTION (SEASONALLY ADJUSTED) DIPPED BY MODEST 0.1 PERCENT FROM PRIOR MONTH; PRODUCERS' SHIPMENTS, HOWEVER, REGISTERED LARGER 1.2 PERCENT DROP. INVENTORIES OF FINISHED GOODS INCREASED 0.9 PERCENT AND THE RATIO OF INVENTORIES OF FINISHEDGOODS TO SHIPMENTS ROSE 2.2 PERCENT FROM SEP LEVEL. DETAILED FIGURES INDICATE THAT REDUCED OUTPUT IN AUTO INDUSTRY, A LEADER IN FIRST HALF UPTURN, HAS BEEN CLEAR FEATURE OF THE RECENT SLOWDOWN IN ECONOMY. IN PAST THREE MONTHS PRODUCTION OF ROAD MOTOR VEHICLES (SEASONALLY ADJUSTED) HAS DROPPED 12.2 PERCENT AND SHIPMENTS HAVE DECLINED 13.0 PERCENT.

4. NEW PRIVATE CONSTRUCTION ORDERS SEASONALLY ADJUSTED CONTINUED TO ADVANCE IN OCT, BUT ORDERS PLACED BY GOVT AND PUBLIC AGENCIES FELL SHARPLY. EVEN IN NOMINAL TERMS OCT FIGURE FOR NEW GOVT CONSTRUCTION ORDERS (JEI 363) WAS LOWEST IN NEARLY THREE YEARS. SHARP 34.8 PERCENT DECLINE FROM PRIOR MONTH APPEARS TO UNCLASSIFIED

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REFLECT IMPACT OF PUBLIC WORKS CUTBACKS JUST PRIOR TO DIET PASSAGE OF LEGISLATION AUTHORISING INCREASED ISSUANCE OF GOVT BONDS, HIGHER FARES FOR NATIONAL RAILWAYS AND RATE HIKES BY TELEPHONE AND TELEGRAPH CORPORATION. ON OTHER HAND, INCREASE IN NEW PRIVATE CONSTRUCTION ORDERS (JEI 325) APPEARS TO CONFIRM REVIVAL OF THIS SECTOR AFTER SECOND QUARTER SLUMP.

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 3934

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

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NEW CONSTRUCTION ORDERS, SEASONALLY ADJUSTED

(BIL YEN; PCT CHANGE FROM PRIOR MONTH IN PAREN)

AUG GOVT/PUBLIC PRIVATE

AUG 221.1 (1.2) 229.3 (-7.7)

SEP (R) 232.2 (5.0) 253.4 (10.5)

OCT (P) 151.5 (-34) 2631. (3.8)

5. BANKRUPTCY LAST WEEK OF LARGE VALVE MANUFACTURER
TOYO AGAIN FOCUSED ATTENTION ON HIGH LEVEL OF BUSINESS
FAILURES IN JAPAN. BANKRUPTCIES IN THE FIRST 11 MONTHS OF
1976 HAVE ALREADY TOPPED LAST YEAR'S RECORD. AFTER REMAINING
FAIRLY STABLE DURING THE FIRST HALF OF THE YEAR, THE
NUMBER OF FAILURES JUMPED SHARPLY IN THE PAST FOUR
MONTHS AND IS EXPECTED TO TOP 1,500 CASES IN NOVEMBER.
TOYO VALVE'S BANKRUPTCY PETITION LISTED OUTSTANDING DEBTS OF
32 BIL YEN (ABOUT \$102 MIL), THE SECOND LARGEST
FIGURE THIS YEAR FOR A FIRM. ON THE BRIGHTER SIDE

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ANOTHER SURVEY SHOWS JAPANESE COMPANIES AS A GROUP REPORTING INCREASES IN CURRENT PROFITS IN THE SIX MONTH PERIOD ENDING SEP 300 EXCEEDED ONLY BY THE INCREASES IN THE PREVIOUS SEMESTER. THE SURVEY, CONDUCTED BY THE HIGHLY REGARDED WAKO SECURITIES CO. INDICATES CURRENT PROFITS OF 487 MAJOR CORPORATIONN SURVEYED WERE 54.9 PERCENT ABOVE PROFITS RECORDED IN THE CORRESPONDING APRIL - SEP PERIOD OF 1975. SURVEY ALSO NOTED THAT ONE OUT OF EVERY SIX FIRMS RECORDED A DEFICIT IN THE LATEST HALF-YEAR TERM, COMPARED WITH ONE OUT OF EVERY THREE FORR HE SAME PERIOD OO 1975.

6. NOV CPI FOR TOKYO AREA (JEI 422) ROSE 0.4 PERCENT FROM OCT. ALTHOUGH STILL SUBSTANTIAL, THIS REPRESENTS A MUCH SLOWER PACE OF ADVANCE THAN 2.8 PERCENT AND 0.9 PERCENT INCREASES RECORDED IN SEP AND OCT RESPECTIVELY. NOV INCREASE REFLECTED SHARP RISE IN NATIONAL RAILWAY FARES; EPA OFFICIALS ESTIMATE THAT EXCEPT FOR IMPACT OF FARE INCREASE, NOV CPI, WITH PRICES OF SEASONAL ITEMS DOWN MARKEDLY, WOULD HAVE SHOWN NO CHANGE OR PERHAPS A SLIGHT DECLINE FROM OCT LEVEL.

7. IN THE FINANCIAL MARKETS, CALL MONEY MARKET RATES IN JAPAN WERE RAISED BY 0.25 PERCENT, EFFECTIVE NOV 29, REFLECTING SEASONNL CREDIT TIGHTENING AROUND YEAR-END. AS RESULT, CALL RATE (UNCONDITIONAL) NOW STANDS AT 7.00 PERCENT PER ANNUM. BILL DISCOUNT ATE HAS REMAINED AT 8.00 PERCENT PER ANNUM SINCE NOV 1. AS RESULT OF LAST WEEK'S CHANGE, NOV AVERAGE CALL MONEY RATE (JEI 178) WAS 6.771 PERCENT.

8. BOND YIELDS ALSO ROSE IN NOV, THOUGH MODERATELY. TSE SPECIALIST NOTED THAT DESPITE DECLINES IN AVERAGE BOND PRICES YIELDS ON SHORTER MATURITY BONDS CEASED STEADY RISE OF PAST MONTHS.

THIS MAY HAVE BEEN REACTION TO SEPCULATIVE PRESS REPORTS THAT BOJ HAS BEEN CONSIDERING MONEY RATE CUTS.

BOND YIELDS, YIELDS TO MATURITY
(YIELDS IN PERCENT; AT MONTH-END)

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GOJ BONDS TELEPHONE & CORPORATE

TELEGRAPH BONDS BONDS

AUG	8.717	8.952	8.832
SEP	8.768	9.014	8.945
OCT	8.769	9.098	8.919
NOV	8.797	9.171	8.954

9. YEN WEAKENED TO FIVE-MONTH LOW IN ACTIVE TRADING
ON TOKYO FOOEX MARKET WED DEC 1. MEDIAN RATE ON SPOT
MARKET WAS YEN 296.80 DOWN YEN 1.05 FROM PREVIOUS DAY.
MARKET TENDS TO DISCOUNT ROLE IN YEN DECLINE OF
AUSTRALIAN AND NEW ZEALAND FOREX ACTIONS, CITING INSTEAD
CONTINUING WORRY ABOUT POSSIBLE OIL PRICE HIKE AND HEAVY
DEMAND FOR DOLLARS FOR IMPORT SETTLEMENTS EARLY IN
DEC. PRESS REPORTSS BOJ DOLLAR SALES OF \$60 TO
\$80 MIL DEC 1 TO QTE PREVENT ERRATIC FLUCTUATIONS IN
EXCHANGE RATES UNQTE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, INDUSTRIAL PRODUCTION, ECONOMIC RECOVERY, ECONOMIC REPORTS, RAIL TRANSPORTATION, FEES, YEN (CURRENCY), FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 02 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976TOKYO17727
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760446-0030
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761277/aaaacouh.tel
Line Count: 240
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: wolfsd
Review Comment: n/a
Review Content Flags:
Review Date: 26 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 MAY 2004 by hattaycs>; APPROVED <10 AUG 2004 by wolfsd>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL AND ECONOMIC DEVELOPMENTS NOV 24 - DEC 1
TAGS: EFIN, JA
To: STATE TRSY
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006